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Google (GOOG-432.59) - Outperform
Google Tunes in the Ecosystem?

Data

Target Price-Yr.End '06	\$550	Shares Out	314M (FD)	LT Debt to Tot Cap	0%
52-Wk Range	\$475.11-\$172.57	Avg Day Trade Vol	10M	EV/Fwd EBITDA	20x ('07)
Market Cap (MM)	\$135B	Book Value	\$13.20		

Pro Forma Estimates

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year
2005	\$1.29A	\$1.36A	\$1.51A	\$1.79	\$5.91
2006					\$8.27(1)
2007					\$12.01(2)

(1) Includes our estimate of \$0.74 in option expenses, (\$9.00) (2) Includes our estimate of \$1.10 in options expenses (\$13.11)

Key Points

- *** In our report on Jan 4, we laid out for investors our view of the Google Ecosystem flourishing around Google. With existing and yet-to-be-announced products, we postulated that Google would spawn various sub-sectors that would not only flourish themselves, but also be self reinforcing to Google.
- *** In this vein, we believe that Google is in the midst of creating its own iTunes competitor, which we've dubbed "Google Tunes". We think this is a logical step, now that the nascent Google Video product has been introduced.
- *** Why is Google Tunes attractive to Google? According to Nielsen/Net ratings, unique visitors to Apple's iTunes site increased 241% YoY to 20.7M, for a 14% reach. Further, Nielsen indicates that iTunes users form a distinct target audience with brand preferences along autos, alcohol beverages, magazines, and television.
- *** We would expect Google to rollout a Beta service within 3-6 months. We note that Google has not confirmed our expectations, and that our thinking is based on Mosaic theory. However, we do think this fits with Google's recent moves and its ultimate goal of organizing the world's information.
- *** Lastly, we think that increased digital media download functionality on the 'Net is inevitable and will be done with or without Google. We note that Google likes to improve on existing products (i.e. maps, email) and would expect that its service will try to be fungible with iPods and other MP3 players.

Securities in this report priced as of: January 25, 2006 16:00

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Valuation Method for Target Price: To value Google we use a DCF with a WACC of 12.5% and an 8% terminal growth rate

Investment Risks: Stronger competition could emerge, i.e. MSN; Marketshare shift from Online Advertising back to traditional media

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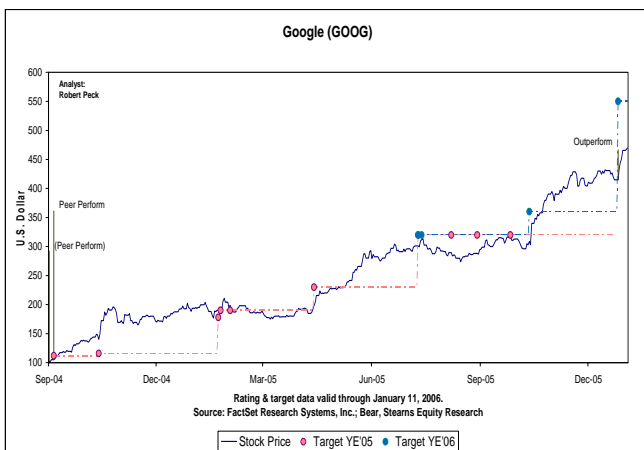
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